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SIPDIS  
TELEGRAM

July 04, 2004

To: No Action Addressee  
Action: Unknown  
From: AMEMBASSY ABU DHABI (ABU DHABI 2203 - ROUTINE)  
TAGS: ECON, EFIN, EINV, ECIN  
Captions: None  
Subject: PRIMER ON UAE INSURANCE MARKET  
Ref: None

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UNCLAS ABU DHABI 02203

SIPDIS  
CXABU:  
ACTION: ECON  
INFO: AMB POL DCM P/M

DISSEMINATION: ECON  
CHARGE: PROG

APPROVED: DCM: RALBRIGHT  
DRAFTED: ECON: HALGHAZOU  
CLEARED: ECON: CMARTIN

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RR RUEHC RUEHZM RUCPDOC  
DE RUEHAD #2203 1861212  
ZNR UUUUU ZZH  
R 041212Z JUL 04  
FM AMEMBASSY ABU DHABI  
TO RUEHC/SECSTATE WASHDC 4974  
INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE  
RUCPDOC/USDOC WASHDC

UNCLAS ABU DHABI 002203

SIPDIS

DEPT FOR NEA/RA, NEA/ARP  
SECSTATE PASS TO USTR  
USTR FOR BUNTIN AND BELL

E.O. 12958; DECL N/A  
TAGS: [ECON](#) [EFIN](#) [EINV](#) [ECIN](#) [TC](#)

SUBJECT: PRIMER ON UAE INSURANCE MARKET

¶1. The UAE insurance sector is a small contributor to the federation's economy, but enjoys significant levels of protection from foreign competition. Most recent data available shows that the insurance sector contributed \$630 million to the UAE economy in 2002 -- less than 1 percent of the UAE's GDP. There are 49 insurance companies registered in the UAE, and an additional 225 companies operate branches or insurance brokerage offices here. Although both national and foreign insurance companies are licensed to operate in the UAE, national insurance companies comprise about 55 percent of the total.

¶2. The national insurance companies receive significant support from the government in the form of preferential

bidding for government contracts. In the emirate of Abu Dhabi, for example, all government-funded infrastructure projects (including oil, construction, utilities, etc.) are insured only by national insurance companies based in Abu Dhabi: Abu Dhabi National Insurance Company (ADNIC), Emirates Insurance Company, Al-Dhafra Insurance Company, Al-Ain Al-Ahlia Insurance Company, and Al-Khazna Insurance Company. (Note: This practice is unique to Abu Dhabi. The other emirates occasionally contract with foreign insurance firms insure their investments. End note.)

¶3. The Abu Dhabi-based national insurance companies operated as a cartel until 1996, and agreed to work together to co-insure major government funded projects. In addition, the cartel stipulated that the member companies would not compete with each other for clients and carefully parceled out business. The cartel members would quote unfavorable premiums and stipulate outrageous conditions to discourage potential clients from changing insurance coverage between these insurance companies. The cartel dissolved in 1996 by order of Abu Dhabi emir.

¶4. Foreign insurance companies in the UAE mainly insure private business. UAE Ministry of Economy Director of the Companies Department Ahmed Ali Al-Hosani told Econ Assistant on June 19 that the UAE Government stopped licensing foreign insurance companies in 1989 because of a perception that the local insurance market is "saturated." Al-Hosani said that the UAEG intended to liberalize this sector in the line with the UAE's WTO obligations, but the UAEG will require new insurance companies to employ Emirati nationals (perhaps up to 50 percent of the company's staff) and levy taxes of 20 percent or more on the companies' profits. (Note: There are similar requirements for foreign banks operating in the UAE. End note.)

¶5. Al-Hosani said that many government officials and owners of existing insurance companies are reluctant to support the liberalization of the insurance sector. He said that the Ministry of Economy recognizes that it eventually must liberalize the financial services sector in line with the UAE's WTO obligations, and the Ministry has encouraged existing insurance companies to consider consolidation and diversify their products to compete with foreign insurance companies and new entrants to the market. UAE Minister of Economy and Commerce Fahim bin Sultan Al-Qassimi announced at the GCC Insurance Forum in January that UAE would not push liberalization of the insurance sector because the local insurance market is not ready to face stiff, foreign competition. Al-Qassimi said that a careful and thorough study would be necessary to lay down rules for liberalizing the insurance sector gradually.

¶6. Other challenges that face the insurance market in the UAE are the lack of national reinsurance companies -- the local insurance companies depend on Europe-based companies to reinsurance various risks. The UAE, in concert with the GCC, has made some effort to establish a GCC-based joint reinsurance company to cover the rising insurance costs for commercial cargoes coming to the Gulf region during times of regional unrest.

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